Calendar No. 482

99TH CONGRESS
1st Session

SENATE

REPORT
99-219

TEMPORARY EXTENSION OF CERTAIN EXPIRING TAX PROVISIONS

DECEMBER 12 (legislative day, DECEMBER 9), 1985.—Ordered to be printed

Mr. PACKWOOD, from the Committee on Finance, submitted the following

REPORT

[To accompany S. 1912]

[Including cost estimate of the Congressional Budget Office]

The Committee on Finance, to which was referred the bill (S. 1912) to provide for a 6-month extension of certain temporary provisions relating to the Internal Revenue Code of 1954, having considered the same, reports favorably thereon with an amendment to the text and an amendment to the title and recommends that the bill as amended do pass.

The amendment to the text of the bill is shown in italics.

I. EXPLANATION OF THE BILL

PRESENT LAW

The following provisions of present law are scheduled to expire (or have expired) on the dates listed below.

1. Moratorium on section 861 reseach allocation rule

Section 126 of the Deficit Reduction Act of 1984 (P.L. 98-369) suspended until taxable years beginning after August 1, 1985, the applicability of the rule in Treasury Regulation section 1.861-8 that requires a taxpayer with foreign-source income from products in a product area in which it does U.S. research to allocate part of its U.S. research expenses against foreign income.

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2. Incremental research tax credit

A taxpayer may claim a 25-percent tax credit for the excess of (1) its qualified research expenditures for the taxable year incurred in carrying on a business over (2) the average amount of its yearly qualified research expenditures in the preceding three taxable years (Code sec. 30). Under present law, the credit will not apply to expenses paid or incurred after December 31, 1985.

3. Barriers to the handicapped

Taxpayers may expense up to $35,000 annually of costs for removing architectural or transportation barriers to the handicapped or elderly (sec. 190). This provision does not apply to such costs incurred in taxable years beginning after December 31, 1985.

4. Moratorium on 1976 Act NOL carryover rules

Under a moratorium last extended in section 62 of the Deficit Reduction Act of 1984, the amendments made by the Tax Reform Act of 1976 to sections 382 and 383, relating to the carryover of corporate net operating losses (NOLs) and other corporate tax attributes, are deferred, generally, until taxable years beginning after December 31, 1985.

5. Moratorium on faculty housing regulations

Section 531(g) of the Deficit Reduction Act of 1984 prohibits the Treasury Department from issuing, prior to January 1, 1986, any income tax regulations that would provide for inclusion in gross income of the excess of the fair market value of qualified campus lodging over the greater of (1) the operating costs paid in furnishing the lodging, or (2) the rent received. This moratorium on regulations applies only with respect to qualified campus lodging furnished after December 31, 1983 and before January 1, 1986.

6. Targeted jobs tax credit

An employer may claim a tax credit for a specified percentage of wages (up to a dollar cap) paid during the first and second years of employment of an individual in a targeted group, including certain economically disadvantaged or disabled individuals (sec. 51). Under present law, the credit will not apply with respect to target-group individuals who begin work for the employer after December 31, 1985.

7. Attorneys' fees

Attorneys' fees up to $25,000 may be awarded in a Federal tax case to a prevailing taxpayer if the taxpayer proves that the Government's position was unreasonable (sec. 7430). Under present law, this provision expires with respect to court proceedings commenced after December 31, 1985.

8. Educational assistance

An exclusion from gross income is provided for up to $5,000 annually of employer-provided educational assistance pursuant to a qualified program (sec. 127). Under present law, this exclusion will not apply to taxable years beginning after December 31, 1985.

9. Group legal services benefits

Present law excludes from gross income employer contributions to a qualified prepaid legal services plan, as well as the value of any legal services received by, or amounts paid as reimbursement for legal services for, the employee or the employee's spouse or dependents (sec. 120). This exclusion, and the related provision for tax-exempt status of a trust forming part of a qualified legal services plan (sec. 501(c)(20)), will not apply for taxable years ending after December 31, 1985.

10. Van pooling

Present law excludes from an employee's gross income the value of certain employer-provided transportation ("van pooling") between an employee's residence and place of employment (sec. 124). This exclusion is scheduled to terminate for van pooling provided in taxable years beginning after December 31, 1985.

11. Exclusion for reinvested utility dividends

Present law provides an exclusion of up to $750 ($1,500 on a joint return) for dividends from a public utility that are reinvested in common stock of the utility (sec. 305(e)). This exclusion will not apply to distributions after December 31, 1985.

12. Business energy credits

In addition to the investment tax credit, business energy credits are available for specified percentages of a taxpayer's investments through 1985 in solar, wind, geothermal, ocean thermal, or biomass property, intercity buses, and small-scale hydroelectric projects (sec. 46).

13. Residential energy tax credit

A 15-percent tax credit is allowed on the first $2,000 ($300 maximum credit) spent through 1985 for installation in a taxpayer's principal residence of items to reduce heat loss or gain, increase heating system efficiency, or reduce fuel consumption (sec. 23). Also, a 40-percent tax credit is allowed on the first $10,000 ($4,000 maximum credit) spent through 1985 for renewable energy property, i.e., solar, wind, and geothermal.

14. Social security coverage of certain retired Federal judges

P.L. 98-118 deferred until January 1, 1986, the effect date for a provision of the 1983 Social Security Amendments (P.L. 98-21) under which wages received by retired Federal judges while on active duty would be subject to social security taxes.

REASONS FOR CHANGE

The committee believes that the expiring tax provisions listed above should be temporarily extended, so that individuals and businesses will know whether these tax rules will be in effect during the period of expected Congressional consideration of major tax legislation next year.

EXPLANATION OF PROVISIONS

1. Moratorium of section 861 research allocation rule

The bill suspends the applicability of the research expense allocation rule in Treasury Regulation section 1.861-8 until taxable years beginning after August 15, 1986.

2. Incremental research tax credit

As extended by the bill, the incremental research tax credit (sec. 30) will not apply to expenses paid or incurred after August 15, 1986.

3. Barriers to the handicapped

As extended by the bill, the expensing provision for costs of removing barriers to the handicapped (sec. 190) will not apply to such costs incurred in taxable years beginning after August 15, 1986.

4. Moratorium on 1976 Act NOL carryover rules

Under the bill, the 1976 Act amendments to section 382 and 383 generally are deferred until taxable years beginning after August 15, 1986. The amendments relating to reorganizations pursuant to a plan of reorganization adopted after August 15, 1986.

5. Moratorium on faculty housing regulations

The moratorium on issuance of income tax regulations related to qualified campus lodging enacted in section 531(g) of the Deficit Reduction Act of 1984 is extended by the bill to apply with respect to qualified campus lodging furnished after December 31, 1983 and before August 16, 1986.

6. Targeted jobs tax credit

As extended by the bill, the targeted jobs tax credit (sec. 51) will not apply with respect to target-group individuals who begin work for the employer after August 15, 1986. The bill also extends the authorization for appropriations for administrative and publicity expenses to fiscal year 1986.

7. Attorneys' fees

As extended by the bill, the provision for awards of attorneys' fees in tax litigation (sec. 7430) will not apply with respect to any proceeding commenced after August 15, 1986.

8. Educational assistance

As extended by the bill, the exclusion for up to $5,000 annually of employer-provided educational assistance (sec. 127) will not apply to taxable years beginning after August 15, 1986.

9. Group legal services benefits

As extended by the bill, the exclusion for benefits under a qualified prepaid legal services plan (sec. 120), and the related provision for tax-exempt status of a trust forming part of the plan (sec. 501(c)(20)), will not apply for taxable years ending after August 15, 1986.

10. Van pooling

As extended by the bill, the exclusion for certain employer-provided van pooling (sec. 124) will not apply to van pooling provided in taxable years beginning on or after August 16, 1986.

11. Exclusion for reinvested utility dividends

As extended by the bill, the exclusion for certain reinvested utility dividends (sec. 305(e)) will not apply to distributions after August 15, 1986.

12. Business energy credits

Under the bill, the business energy tax credits scheduled under present law to expire December 31, 1985 (pursuant to sec. 46(b)(2)(A)) are extended for qualified investments made prior to August 16, 1986.

13. Residential energy tax credit

As extended by the bill, the section 23 residential energy tax credit will not apply to expenditures made after August 15, 1986.

14. Social security coverage of certain retired Federal judges

The effective date for application of social security taxes to wages of retired Federal judges on active duty is deferred to August 16, 1986.

EFFECTIVE DATE

The provisions of the bill are effective on enactment.

II. Budget Effects and Vote of the Committee

A. BUDGET EFFECTS

In compliance with paragraph 11(a) of Rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the budget effects of S. 1912, as reported by the committee.

The provisions of the bill are estimated to reduce fiscal year budget receipts, or increase budget outlays, by the amounts shown in the following table.

ESTIMATED REVENUE EFFECTS OF S. 1912 AS RFPORTED BY THE SENATE FINANCE COMMITTEE

[Fiscal years 1986-90 in millions of dollars]

Provision	1986	1987	1988	1989	1990	1986-90
Sec. 1. Section 861-8 R&D allocation	−211	−39	(1)			−260
Sec. 2. R&D tax credit	−451	−285	−148	−87	−73	−1,044
Sec. 3. Architectural barriers	−9	−7	(1)			−16
Sec. 4. NOL moratorium	(2)	(2)	(2)	(2)	(2)	(2)
Sec. 5. Faculty housing moratorium	(1)	(1)				(2)
Sec. 6. Targeted jobs tax credit	−131	−179	−86	−43	−26	−465
Sec. 7. Attorney's fees	(3)	(3)				(3)
Sec. 8. Educational assistance	−82	−9				−91
Sec. 9. Group Legal Services	−54	−6				−60
Sec. 10. Van pooling	(1)	(1)				(1)
Sec. 11. Dividend reinvestment	−333	−164	+39	+36	+34	−388

ESTIMATED REVENUE EFFECTS OF S. 1912 AS RFPORTED BY THE SENATE FINANCE COMMITTEE—Continued

[Fiscal years 1986–90 in millions of dollars]

Provision	1986	1987	1988	1989	1990	1986–90
Sec. 12. Business energy credits	−111	−69	+8	+8	+8	−156
Sec. 13. Residential energy credits	−98	−381	−16	(2)		−495
Sec. 14. Social Security coverage of retired Federal judges on active duty	(1)					(1)
Total	−1,490	−1,139	−203	−86	−57	−2,975

[1] Loss of less than $5 million
[2] Outlay of less than $5 million
[3] Loss of less than $10 million

B. VOTE OF THE COMMITTEE

In compliance with paragraph 7(c) of the Rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the vote of the committee on the motion to report the bill. S. 1912, as amended, was ordered favorably reported by a voice vote.

III. Regulatory Impact of the Bill and Other Matters to be Discussed Under Senate Rules

A. REGULATORY IMPACT

Pursuant to paragraph 11(b) of Rule XXVI of the Standing Rules of the Senate, the committee makes the following statement concerning the regulatory impact that might be incurred in carrying out the provisions of S. 1912, as reported.

Numbers of individuals and businesses who would be regulated

The bill does not involve new or expanded regulation of individuals or businesses.

Economic impact of regulation on individuals, consumers, and businesses

The bill temporarily extends certain expiring tax provisions and thereby assists taxpayers in planning their transactions.

Impact on personal privacy

The bill has no impact on personal privacy.

Determination of the amount of paperwork

The bill does not impose any new paperwork burdens on individuals and businesses.

B. OTHER MATTERS

Consultation with Congressional Budget Office on budget estimates

In accordance with section 403 of the Budget Act, the committee advises that the Director of the Congressional Budget Office has examined the committee's budget estimates for the bill (as shown in Part II of this report) and agrees with the committee's budget estimates. The Director submitted the following statement.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, December 12, 1985.

Hon. BOB PACKWOOD,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office concurs with the revenue estimates prepared by the Joint Committee on Taxation, shown in Table 1, for S. 1912, a temporary extension of certain provisions of the Internal Revenue Code, as ordered reported by the Committee on Finance on December 11, 1985. The bill would extend to August 15, 1986 certain tax provisions of the Internal Revenue Code which either have expired or will expire after December 31, 1985.

With best wishes,
Sincerely,

RUDOLPH G. PENNER, *Director.*

TABLE 1. ESTIMATED REVENUE EFFECTS OF S. 1912 AS ORDERED REPORTED BY THE COMMITTEE ON FINANCE

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Section 861–8 R&D allocation moratorium	−221	−39	(1)		
R&D tax credit	−451	−285	−148	−87	−73
Architectural barriers	−9	−7	(1)		
NOL moratorium	(2)	(2)	(2)	(2)	(2)
Faculty housing moratorium	(1)	(1)			
Targeted jobs tax credit	−131	−179	−86	−43	−26
Educational assistance	−82	−9			
Group Legal Services	−54	−6			
Van pooling	(1)	(1)			
Dividend reinvestment	−333	−164	39	36	34
Business energy credits	−111	−69	8	8	8
Residential energy credits	−98	−381	−16	(2)	
Social Security coverage of retired Federal judges on active duty	(1)				
Total	−1,490	−1,139	−203	−86	−57

[1] Loss of less than $5 million.
[2] Loss of less than $10 million.

Note.—The bill would also extend through August 15, 1985 the award of attorneys' fees in certain federal tax cases. Under current law, this provision expires with respect to court proceedings commenced after December 31, 1985. CBO estimates that this extension would result in no significant costs to the federal government, and in no costs to state and local governments.

New budget authority

In compliance with section 308(a)(1) of the Budget Act, and after consultation with the Director of the Congressional Budget Office, the committee states that the changes made to existing law by the bill involve no new budget authority.

Tax expenditures

In compliance with section 308(a)(2) of the Budget Act with respect to tax expenditures, and after consultation with the Director of the Congressional Budget Office, the committee states that the temporary extension of certain expiring tax provisions of existing law made by the bill will involve no new tax expenditures, and will

increase tax expenditures to the extent of the extension of present-law tax expenditures (see items 1-6 and 8-13 in the revenue table in Part III, above.)

IV. Changes in Existing Law Made by the Bill, as Reported

In the opinion of the committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of paragraph 12 of rule XXVI of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the provisions of S. 1912, as reported by the committee).

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